

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2004

PART I

INTRODUCTORY SECTION

January 19, 2005

Board of Land and Natural Resources
State of Hawaii

We have completed our financial audit of the Department of Land and Natural Resources, State of Hawaii as of and for the fiscal year ended June 30, 2004. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OBJECTIVES OF THE AUDIT

The objectives of our audit were:

1. To provide a basis for an opinion on the fairness of the financial statements of the Department of Land and Natural Resources (Department).
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Department is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the Department's internal control is adequate in assuring that there is effective control over the proper accounting of revenues, expenditures, assets, and liabilities.
4. To determine whether the Department has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
5. To determine whether the Department has complied with the laws and regulations that may have a material effect on the financial statements and on each major federal financial assistance program of the Department.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2004.

ORGANIZATION OF THE REPORT

This report is organized into five parts:

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|------|-------|--|
| PART | I - | presents the introduction. |
| PART | II - | presents the financial statements and the auditors' report on such statements. |
| PART | III - | presents other supplementary financial data. |
| PART | IV - | contains the report on compliance and on internal control over financial reporting and the report on compliance with requirements applicable to each major program and internal control over compliance. |
| PART | V - | contains the schedule of findings and questioned costs and provides the status of prior audit findings. |

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At this time, we wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the personnel of the Department. We shall be pleased to respond to any questions that you may have on this report.

Very truly yours,



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PART II
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Land and Natural Resources
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2004, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2004, the respective changes in financial position thereof, and the respective budgetary comparison for the general fund and other major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

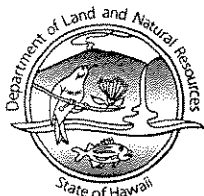
In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2005, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages X through X are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Department. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ohata Chun Guan LLP

Honolulu, Hawaii
January 19, 2005



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

DEPUTY DIRECTOR - LAND

DEAN NAKANO
ACTING DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

As management of the Department of Land and Natural Resources (the DLNR), we offer readers of these financial statements this narrative overview and analysis of the financial activities of DLNR for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2004

- The assets of the DLNR exceeded its liabilities at June 30, 2004, by \$295.1 million. Of this amount, \$102 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of the close of the current fiscal year, the DLNR's governmental funds reported a combined ending balance of \$107.7 million.
- During the year, the DLNR's total revenue was \$89 million and expenses totaled \$71.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the DLNR basic financial statements. The basic financial statements are comprised of three (3) components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information. These components are described below:

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the DLNR's finances, in a manner similar to a private-sector business. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Assets* presents information on all of the DLNR's assets and liabilities, with the difference between the two reported as "net assets". Increases and decreases in the net assets serve as a useful indicator of whether the financial position of the DLNR is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

- The *Statement of Activities* presents information showing how the DLNR's net assets changed during the most recent fiscal year.

Fund Financial Statements

The fund financial statements provide more detailed information about the DLNR's most significant funds and not the DLNR as a whole. The financial activities of the DLNR are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis- for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

The DLNR has two types of funds: governmental funds and fiduciary funds.

- **Governmental Funds:** These funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well on balances of spendable resources available at the end of the fiscal year.

The financial activities of the DLNR reported in the governmental fund financial statements are classified into the following major governmental funds:

- **General Fund** - The general fund is the operating fund of the DLNR. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.
- **Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- **Capital Project Fund** - The capital project fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities.
- **Expendable Trust Funds:** - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes.
- **Fiduciary Funds:** These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information including combining financial statements referred to earlier in connection with non-major Governmental Funds.

DEPARTMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net assets may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2004, the DLNR's total net assets were approximately \$295.1 million.

The largest part of the DLNR's net assets reflects its investment in capital assets (land, buildings, improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The DLNR uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the DLNR's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

The following is a comparative statement of net assets:

Summary of Statement of Net Assets (in millions)

	2004	2003	Increase (Decrease)
Cash and short term investments	\$ 135.0	\$ 119.5	\$ 15.5
Receivables	2.1	2.8	(0.7)
Capital assets	201.6	200.8	.8
Total assets	<u>\$ 338.7</u>	<u>\$ 323.1</u>	<u>\$ 15.6</u>
Current liabilities	31.6	23.5	8.1
Long-term liabilities	12.0	12.3	(0.3)
Total liabilities	<u>43.6</u>	<u>35.8</u>	<u>7.8</u>
Invested in capital assets, net of related debt	193.1	191.7	1.4
Unrestricted	102.0	95.6	6.4
Total net assets	<u>295.1</u>	<u>287.3</u>	<u>7.8</u>
Total liabilities and net assets	<u>\$ 338.7</u>	<u>\$ 323.1</u>	<u>\$ 15.6</u>

DLNR's net assets increased by \$ 15.6 million during the fiscal year ended June 30, 2004. This increase was due to a similar increase in cash and short term investments. A third of this increase was from a new National Oceanic and Atmospheric Administration federal grant that allowed for the full advance of \$5 million. In addition, the capital projects and the Bureau of Conveyances Special Fund cash balances increased by \$5.4 and \$4.3 million respectively. The increase in the capital projects fund cash is the direct result of allotment approvals by the Governor. The Bureau of Conveyances Special Fund lapsed \$5.5 million to the state general fund in FY03. A similar amount of excess funds as of June 30, 2004 was lapsed in August 2004 and will be reflected in the DLNR's FY05 financials.

The increase in current liabilities is primarily due to the recording of a \$6.2 million liability in the Water and Land Development Fund. Information on this previously unrecorded liability can be found in item 11 in the Notes to The Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2004:

	Changes in Net Assets (in millions)		
	2004	2003	Increase (Decrease)
Program revenue			
Interest, rents and fees	\$ 29.9	\$ 27.3	\$ 2.6
Operating grants and contributions	17.9	21.2	(3.3)
State allotted appropriations, net of lapses	36.9	39.0	(2.1)
Total revenue	84.7	87.5	(2.8)
Total expenses	70.2	80.1	(9.9)
Excess before transfers	14.5	7.4	7.1
Transfers	(.5)	(41.4)	40.9
Change in net assets	14.0	(34.0)	48.0
Net assets – beginning	287.3	291.9	(4.6)
Restate construction in progress		29.4	(29.4)
Adjustment for due to other state agencies	(6.2)	321.3	(6.2)
Net assets - beginning, restated	281.1	321.3	(40.2)
Net assets - end of year	\$ 295.1	\$ 287.3	\$ 7.8

Revenues of the DLNR consist of state appropriations, charges for services, program investment income and federal grants. Charges for services consist primarily of rent from leases, licenses and permits from public lands, and fuel taxes. The investment income is from income earned within the program funds that are invested by the State Director of Finance.

Total expenditures decreased by \$9.9 million, primarily the result of decreased capital projects expenses. Prior year capital project expenses were also unusually high because of the \$5 million expended for the dredging the Ala Wai Canal.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Included in FY03 net transfers was \$20.5 million in special funds paid to the State General Fund by the Special Land Development Fund and the Bureau of Conveyances Special Fund. Also included in FY03 transfers were \$21.1 million of capital assets completed for other government agencies.

Prior to FY03, the DLNR did not capitalize non-DLNR construction projects. The net asset beginning balance on July 1, 2002 was restated by adding \$29.4 million to properly include these non-DLNR project costs.

Included in FY04, as a net asset adjustment is \$6.2 million payable to other state agencies in repayment of general obligation bonds issued for development of water and irrigation projects. Additional information is provided in note 11 of the Notes to The Financial Statements.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. As noted earlier, the DLNR uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements.

Comparison of Balance Sheets (in millions)

	Assets			Liabilities			Fund Balances		
	2004	2003	Change	2004	2003	Change	2004	2003	Change
General Fund	\$ 2.3	\$ 2.1	\$ 0.2	\$ 2.0	\$ 2.0	\$ 0	\$ 0.3	\$ 0.0	\$ 0.3
Federal Grant Fund	12.0	8.0	4.0	14.5	10.9	3.6	(2.5)	(2.8)	0.3
Water and Land Development Fund	.5	.5	0.0	6.2		6.2	(5.7)	.5	(6.2)
Ocean-Based Recreation Fund	2.4	2.1	0.3	3.3	3.6	(0.3)	(0.9)	(1.5)	0.6
Kaho'olawe Rehabilitation Trust Fund	33.4	33.7	(0.3)	0.3	0.3	0	33.1	33.4	(0.3)
Capital Projects Fund	55.3	49.9	5.4	0.7	1.9	(1.2)	54.6	48.0	6.6
Other Funds	31.1	26.0	5.1	2.4	2.3	0.1	28.7	23.7	5.0
Total	<u>\$ 137.0</u>	<u>\$ 122.3</u>	<u>\$ 14.7</u>	<u>\$ 29.4</u>	<u>\$ 21.0</u>	<u>\$ 8.4</u>	<u>\$ 107.6</u>	<u>\$ 101.3</u>	<u>\$ 6.3</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Comparison of Statement of Revenues, Expenditures and Changes in Fund Balances
(in millions)

	Revenues			Expenditures			Transfers			Lapsed Appropriations			Net Changes in Fund Balances		
	2004	2003	Change	2004	2003	Change	2004	2003	Change	2004	2003	Change	2004	2003	Change
General Fund	\$26.1	\$27.2	(\$1.1)	\$24.4	\$24.7	(\$0.3)	(\$0.5)	(\$0.8)	\$0.3	(\$1.0)	(\$1.8)	\$0.8	\$0.2	\$0.0	\$0.2
Federal Grant Fund	13.6	11.4	2.2	13.2	11.7	1.5	(0.1)	0.0	(0.1)			0.0	0.3	(0.3)	0.6
Water and Land Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ocean-Based Recreation Fund	9.8	9.6	0.2	7.9	8.7	(0.8)	(1.3)	(0.9)	(0.4)			0.0	0.6	0.0	0.6
Kaho'olawe Rehabilitation Trust Fund	2.9	9.3	(6.4)	3.2	3.6	(0.4)			0.0			0.0	(0.3)	5.7	(6.0)
Capital Projects Fund	15.5	20.8	(5.3)	8.6	19.4	(10.8)	3.3	(1.5)	4.8	(3.7)	(6.8)	3.1	6.6	(6.9)	13.5
Other Funds	20.8	17.8	3.0	13.9	13.8	0.1	(1.9)	(17.0)	15.1			0.0	5.0	(12.9)	17.9
Total	\$88.7	\$96.1	(\$7.4)	\$71.2	\$81.9	(\$10.7)	(\$0.5)	(\$20.2)	\$19.7	(\$4.7)	(\$8.6)	\$3.9	\$12.4	(\$14.4)	\$26.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was a \$1 million deficit in the unreserved fund balance of the General Fund. The deficit resulted from recognition of expenditures under GAAP in 2004 and will be funded with fiscal year 2005 state allotted appropriations.

The DLNR has three major and several non-major special funds. A fund is categorized as major if the percentages of its assets, liabilities, revenues, or expenditures exceed pre-defined percentages when compared to the corresponding total of all funds in that category. The DLNR's three major special revenue funds are: 1) Federal Grant Fund; 2) Water and Land Development Fund; 3) Ocean-Based Recreation Fund.

The Federal Grant Fund accounts for funds received from a variety of federal grantor agencies for specific purposes ranging from restoration, protection and acquisition of natural resources to assistance following a natural disaster. Total federal grant expenditures for the year approximated \$15.9 million from over one hundred individual grants. A Schedule of Expenditures of Federal Awards, which lists the various grants, can be found in the Supplemental Information section.

The Water and Land Development Fund became a major special fund with the recording of the note payable to other state agencies of \$6.2 million in the Changes in Nets Assets section above and note 11 of the Notes to the Financial Statements. This fund also contains a revolving fund used to receive and pay for accrued leave for project funded employees who enter and leave the capital improvement projects staff.

The Ocean-Based Recreation Fund accounts for revenues collected to implement the boating and ocean recreation program. Deposits into this fund include a portion of the liquid fuel tax used by recreational boaters. Revenue was approximately \$9.8 million and expenditures approximately \$7.9 million.

The Kaho'olawe Rehabilitation Trust Fund is DLNR's major expendable trust fund. This fund accounts for moneys received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe. Intergovernmental revenues of \$2.1 million represent a final payment from the Department of Defense. On April 9, 2004, the Kaho'olawe Island Reserve Commission assumed full management of the Reserve.

The Capital Projects Fund received approximately \$15.5 million of State allotted appropriations for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities. During the current year, approximately \$8.6 million was expended for capital outlays.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FIDUCIARY NET ASSETS

These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations. There were no significant variances from the prior year.

Summary of Statement of Fiduciary Assets
(in millions)

	2004	2003	Increase (Decrease)
Cash and short term investments	\$ 3.1	\$ 3.4	\$ (0.3)
Receivables - General leases and licenses	0.6	1.2	(0.6)
Total assets	3.7	4.6	(0.9)
Due to State Treasury	0.5	1.2	(0.7)
Due to other State agencies	0.7	0.6	0.1
Total liabilities	1.2	1.8	(0.6)
Held in trust for Individuals and organizations	2.5	2.8	(0.3)
Total net assets	\$ 2.5	\$ 2.8	\$ (0.3)

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for the general funded programs were \$1.3 million less than the budgeted expenditures. This was due primarily to savings from vacant positions.

Federal Funds - In anticipation of additional federal grant funds in fiscal year 2004, the DLNR requested and received approval from the Governor to increase the ceilings on its federal grant operating appropriations by approximately \$15 million. Among the larger new grants were \$5 million from the Department of Commerce for fisheries relief and \$1.5 million from the Transportation Security Administration for harbor security. Federal grants usually require that the DLNR expend funds first then submit a claim. Therefore if expenditures are lower than expected, then actual revenue will similarly be lower than budgeted. Lower than budgeted expenditures may be the result of project reprioritizations and/or staff shortages.

Water and Land Development Fund – As stated earlier, this fund contains a revolving fund used to receive and pay for accumulated leave of capital projects funded staff. Revenue is recognized from 1) accumulated vacation transfers for new staff and 2) interest income earned on the accumulated fund balance. Interest income amounted to \$12,588. The revenue balance of \$18,090 was received for accumulated leave for two new staff members. There were no disbursements from the fund since no affected employees left the program. This fund's revenue and expenditures are directly related to personnel decisions and therefore cannot be predicted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Ocean Based Recreation Fund - As reported earlier, this special fund is the primary operating fund for the Division of Boating and Ocean Recreation. Actual revenue collected was \$5.7 million less than budgeted and expenditures were \$7.8 million less than budgeted because the division's operating budget had been approved by the Legislature based on an anticipated revised fee structure that was not implemented in the current fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2004, the DLNR had invested approximately \$202 million (net of accumulated depreciation) in a broad range of capital assets. The inventory of construction-in-progress increased by \$4.4 million.

See Note 5 to the financial statements for a description of capital assets activities for the Fiscal Year Ended June 30, 2004.

Capital Assets (in millions)			
	2004	2003	Increase (Decrease)
Capital assets not being depreciated			
Land	\$ 138.7	\$ 138.7	\$ 0
Land improvements	0.7	0.7	0
Construction in progress	15.4	11.0	4.4
Total capital assets not being depreciated	154.8	150.4	4.4
Capital assets being depreciated			
Buildings	30.5	30.6	(0.1)
Land and improvements	79.2	77.9	1.3
Furniture and equipment	6.2	5.7	0.5
Vehicles	12.3	11.2	1.1
Total capital assets being depreciated	128.2	125.4	2.8
Less total accumulated depreciation	(81.3)	(74.9)	(6.4)
Total capital assets being depreciated, net	46.9	50.5	(3.6)
Total capital assets, net	<u>\$ 201.7</u>	<u>\$ 200.8</u>	<u>\$.9</u>

Long-term obligations consist of accrued vacation and State of Hawaii reimbursable general obligation bonds.

The accrued vacation balance as of June 30, 2004 was \$5,677,797, a decrease of \$82,037 from fiscal year 2003. This reduction was primarily due to vacation payouts to retired employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$8.5 million as of June 30, 2004, a decrease of \$555,766 from the amount outstanding as of June 30, 2003. In addition to the payments for bond principal, interest approximating \$433,000 was paid by during the fiscal year ended June 30, 2004. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts is made to the state general fund.

See Note 6 to the financial statements for details of the general obligations bonds outstanding as of June 30, 2004.

Long Term Obligations (in millions)			
	2004	2003	Increase (Decrease)
Accrued vacation	\$ 5.7	\$ 5.8	\$ (0.1)
General obligation bonds	8.5	9.1	(0.6)
Total long term debt	<u>\$ 14.2</u>	<u>\$ 14.9</u>	<u>\$ (0.7)</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Act 178, Section 30 of the 2003 Session Laws of Hawaii required that \$4.5 million in excess funds from the Bureau of Conveyances Special Fund be transferred to the state general fund. Hawaii Revised Statutes Section 502-8 also requires that any Bureau of Conveyances Special Fund balance exceeding \$500,000 as of the end of every fiscal year shall lapse to the credit of the state general fund. As of June 30, 2004 the excess balance, which was lapsed by statute, was \$991,878. Both payments were processed in August 2004.

The 2004 legislature determined that the Special Land and Development Fund had a total of \$3,000,000 in excess funds and by Act 52, Sections 16 and 17 required that these funds be transferred to the state general fund. Separate transactions, each for \$1,500,000, were processed in July 2004 and January 2005 to transfer these funds.

Act 41, SLH 2004, appropriated \$4,000,000 (\$2,000,000 general funds and \$2,000,000 special Funds) for FY05, for a pilot statewide invasive species prevention, control, research, and outreach partnership program; provided that funds to be expended for the program are matched by an equal amount in new federal, county, private and other non-state funds or in-kind services. Section 18.1 also provided that portions of this appropriation might be transferred to other state departments to be expended for the approved purpose. The DLNR has received Governor's approval to transfer \$943,000 in general and special funds to the Department of Agriculture and a total of \$201,000 in general and special funds to the Health Department.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the DLNR's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Land and Natural Resources, Administrative Services Office, P. O. Box 621, Honolulu, Hawaii 96809.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Net Assets
June 30, 2004

ASSETS

Cash and short-term cash investments held in State Treasury	\$134,924,784
Receivables:	
Federal grants	2,015,862
General leases and licenses, net of allowance for losses of \$748,551	114,125
Capital assets:	
Land, improvements, construction-in-progress and other capital assets, net of depreciation	<u>201,678,913</u>
Total assets	<u>\$338,733,684</u>

LIABILITIES

Vouchers and contracts payable	\$ 4,648,951
Accrued wages and employee benefits payable	1,737,316
Due to State Treasury	7,974,560
Due to other State agencies	8,831,770
Deferred revenue	6,213,379
General obligation bonds:	
Due within one year	570,000
Due in more than one year	7,924,294
Accrued vacation:	
Due within one year	1,600,000
Due in more than one year	<u>4,077,797</u>
Total liabilities	<u>43,578,067</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets, net of related debt	193,184,619
Unrestricted	<u>101,970,998</u>
Total net assets	<u>295,155,617</u>
Total liabilities and net assets	<u>\$338,733,684</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Activities
For The Year Ended June 30, 2004

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Interest, Rents and Fees	Operating Grants and Contributions	
Departmental activities:				
Economic development	\$ 3,678,665	\$ 479,511	\$ 1,335,896	\$ (1,863,258)
Environmental protection	31,501,702	5,470,199	11,531,462	(14,500,041)
Culture and recreation	26,316,130	12,284,465	4,521,660	(9,510,005)
Public safety	571,634	-	116,219	(455,415)
Individual rights	3,156,361	5,344,521	-	2,188,160
Government-wide support	4,349,153	6,347,072	406,317	2,404,236
Capital outlays	580,312	-	-	(580,312)
Total departmental activities	<u>\$70,153,957</u>	<u>\$29,925,768</u>	<u>\$17,911,554</u>	<u>(22,316,635)</u>
General revenues:				
Appropriations, net of lapsed appropriations				<u>36,877,134</u>
Total general revenues before transfers				36,877,134
Transfers, net (including \$8,320 of capital assets transferred in)				<u>(536,947)</u>
Total general revenues and transfers				<u>36,340,187</u>
Change in net assets				<u>14,023,552</u>
Net assets at July 1, 2003, as previously reported				287,312,860
Adjustment for due to other state agencies				<u>(6,180,795)</u>
Net assets at July 1, 2003, as adjusted				<u>281,132,065</u>
Net assets at June 30, 2004				<u>\$295,155,617</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
ASSETS								
Cash and short-term cash investments held in State Treasury	\$2,301,256	\$10,025,261	\$ 529,888	\$ 2,236,379	\$33,405,990	\$55,305,702	\$31,120,308	\$134,924,784
Receivables:								
Federal grants	-	2,015,862	-	-	-	-	-	2,015,862
General leases and licenses, net of allowance of \$748,551	-	-	-	113,896	-	-	229	114,125
Total assets	<u>\$2,301,256</u>	<u>\$12,041,123</u>	<u>\$ 529,888</u>	<u>\$ 2,350,275</u>	<u>\$33,405,990</u>	<u>\$55,305,702</u>	<u>\$31,120,537</u>	<u>\$137,054,771</u>
LIABILITIES								
Vouchers and contracts payable	\$1,109,828	\$ 1,025,881	\$ -	\$ 524,240	\$ 228,147	\$ 632,739	\$ 1,128,116	\$ 4,648,951
Accrued wages and employee benefits payable	897,172	61,826	-	196,038	60,268	86,659	435,353	1,737,316
Due to State Treasury	-	7,974,560	-	-	-	-	-	7,974,560
Due to other State agencies	-	-	6,180,795	2,146,049	-	-	504,926	8,831,770
Deferred revenue	-	5,452,317	-	390,057	-	-	371,005	6,213,379
Total liabilities	<u>2,007,000</u>	<u>14,514,584</u>	<u>6,180,795</u>	<u>3,256,384</u>	<u>288,415</u>	<u>719,398</u>	<u>2,439,400</u>	<u>29,405,976</u>
Commitments and contingencies								
FUND BALANCES								
Reserved for:								
Encumbrances	1,245,161	5,329,104	-	819,077	2,885,558	48,739,476	7,104,946	66,123,322
Receivables	-	2,015,862	-	113,896	-	-	229	2,129,987
Continuing appropriations	-	-	-	-	-	5,846,828	-	5,846,828
Unexpended Federal awards	-	-	-	-	30,232,017	-	-	30,232,017
Total reserved fund balances	<u>1,245,161</u>	<u>7,344,966</u>	<u>-</u>	<u>932,973</u>	<u>33,117,575</u>	<u>54,586,304</u>	<u>7,105,175</u>	<u>104,332,154</u>
Unreserved:								
Unreserved reported in major funds	(950,905)	(9,818,427)	(5,650,907)	(1,839,082)	-	-	-	(18,259,321)
Unreserved reported in nonmajor - Special revenue funds	-	-	-	-	-	-	21,575,962	21,575,962
Total unreserved fund balances	<u>(950,905)</u>	<u>(9,818,427)</u>	<u>(5,650,907)</u>	<u>(1,839,082)</u>	<u>-</u>	<u>-</u>	<u>21,575,962</u>	<u>3,316,641</u>
Total fund balances	<u>294,256</u>	<u>(2,473,461)</u>	<u>(5,650,907)</u>	<u>(906,109)</u>	<u>33,117,575</u>	<u>54,586,304</u>	<u>28,681,137</u>	<u>107,648,795</u>
Total liabilities and fund balances	<u>\$2,301,256</u>	<u>\$12,041,123</u>	<u>\$ 529,888</u>	<u>\$2,350,275</u>	<u>\$33,405,990</u>	<u>\$55,305,702</u>	<u>\$31,120,537</u>	<u>\$137,054,771</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended June 30, 2004

	General Fund	Federal Grant Fund	Water and Land Development	Ocean-Based Recreation Fund	Kaho'olawe Rehabilitation Trust Fund	Capital Projects Fund	Other Funds	Total
Revenues								
Appropriations								
Intergovernmental revenues	\$26,109,133	\$ -	\$ -	\$ -	\$ -	\$15,461,639	\$ -	\$ 41,570,772
General leases, licenses and permits	-	13,512,476	-	-	2,119,581	60,615	-	15,692,672
Fuel taxes	-	-	-	8,223,014	-	-	18,216,119	26,439,133
Interest	-	-	-	1,555,470	-	-	239,538	1,795,008
Other	-	59,629	12,587	38,658	825,782	-	754,969	1,691,625
	-	51,806	18,091	19,608	351	-	1,567,695	1,657,551
Total revenues	26,109,133	13,623,911	30,678	9,836,750	2,945,714	15,522,254	20,778,321	88,846,761
Expenditures								
Current:								
Economic development	1,649,083	1,215,392	-	-	-	-	603,252	3,467,727
Environmental protection	13,709,824	8,549,075	-	-	3,214,379	-	5,433,447	30,906,725
Culture and recreation	6,856,888	3,251,097	-	6,926,561	-	-	2,506,771	19,541,317
Public safety	97,546	144,179	-	-	-	-	-	241,725
Individual rights	2,073,327	-	-	-	-	-	1,058,355	3,131,682
Government-wide support	-	-	-	-	-	-	4,292,824	4,292,824
Capital improvement projects	-	-	-	-	-	8,568,740	-	8,568,740
Debt service:								
Principal on long-term debt	-	-	-	555,766	-	-	-	555,766
Interest on long-term debt	-	-	-	432,967	-	-	-	432,967
Total expenditures	24,386,668	13,159,743	-	7,915,294	3,214,379	8,568,740	13,894,649	71,139,473
Excess (deficiency) of revenues over (under) expenditures	1,722,465	464,168	30,678	1,921,456	(268,665)	6,953,514	6,883,672	17,707,288
Other financing sources (uses)								
Operating transfers in	-	5,579,304	499,210	8,443,117	32,011,056	6,190,331	16,719,828	69,442,846
Operating transfers out	(492,266)	(5,695,061)	(499,210)	(9,749,361)	(32,011,056)	(2,909,956)	(18,631,203)	(69,988,113)
Total other financing sources (uses)	(492,266)	(115,757)	-	(1,306,244)	-	3,280,375	(1,911,375)	(545,267)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,230,199	348,411	30,678	615,212	(268,665)	10,233,889	4,972,297	17,162,021
Lapsed appropriations	(1,027,040)	-	-	-	-	(3,666,598)	-	(4,693,638)
Net change in fund balances	203,159	348,411	30,678	615,212	(268,665)	6,567,291	4,972,297	12,468,383
Fund balances at July 1, 2003, as previously reported	91,097	(2,821,872)	499,210	(1,521,321)	33,386,240	48,019,013	23,708,840	101,361,207
Adjustment for due to other state agencies	-	-	(6,180,795)	-	-	-	-	(6,180,795)
Fund balances at July 1, 2003, as adjusted	91,097	(2,821,872)	(5,681,585)	(1,521,321)	33,386,240	48,019,013	23,708,840	95,180,412
Fund balances at June 30, 2004	\$ 294,256	\$ (2,473,461)	\$ (5,650,907)	\$ (906,109)	\$ 33,117,575	\$ 54,586,304	\$ 28,681,137	\$ 107,648,795

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Fiduciary Net Assets
June 30, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and short-term cash investments held in State Treasury	\$3,086,140
Receivables:	
General leases and licenses, net of allowance for losses of \$280,974	<u>609,653</u>
Total assets	<u>3,695,793</u>
LIABILITIES	
Due to State Treasury	489,794
Due to other State agencies	<u>687,164</u>
Total liabilities	<u>1,176,958</u>
NET ASSETS	
Held in trust for:	<u>2,518,835</u>
Individuals and organizations	
Total net assets	<u>\$2,518,835</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Assets
June 30, 2004

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
ASSETS				
Cash and short-term cash investments held in State Treasury	\$134,924,784	\$ -	\$ -	\$134,924,784
Receivables:				
Federal grants	2,015,862	-	-	2,015,862
General leases and licenses, net of allowance for losses	114,125	-	-	114,125
Capital assets:				
Land, improvements, construction-in-progress and other capital assets, net of depreciation	-	201,678,913(1)	-	201,678,913
Total assets	<u>\$137,054,771</u>	<u>\$201,678,913</u>	<u>\$ -</u>	<u>\$338,733,684</u>
LIABILITIES				
Vouchers and contracts payable	\$ 4,648,951	\$ -	\$ -	\$ 4,648,951
Accrued wages and employee benefits payable	1,737,316	-	-	1,737,316
Due to State Treasury	7,974,560	-	-	7,974,560
Due to other State agencies	8,831,770	-	-	8,831,770
Deferred revenue	6,213,379	-	-	6,213,379
Bonds payable:				
Due within one year	-	570,000 (2)	-	570,000
Due in more than one year	-	7,924,294 (2)	-	7,924,294
Accrued vacation:				
Due within one year	-	1,600,000 (3)	-	1,600,000
Due in more than one year	-	4,077,797 (3)	-	4,077,797
Total liabilities	<u>29,405,976</u>	<u>14,172,091</u>	<u>-</u>	<u>43,578,067</u>
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	200,761,547 (1) 9,579,219 (1) 561,333 (1) (2,347,330)(1) 8,320 (1) (13,252)(1) (6,765,285)(1) (105,639)(1) (9,050,060)(2) 555,766 (2)	-	193,184,619
Reserved/Restricted for:				
Encumbrances	66,123,322	-	(66,123,322) (4)	-
Receivables	2,129,987	-	(2,129,987) (4)	-
Continuing appropriations	5,846,828	-	(5,846,828) (4)	-
Unexpended federal awards	30,500,682	-	(30,500,682) (4)	-
Unreserved/Unrestricted	<u>3,047,976</u>	<u>(5,677,797)(3)</u>	<u>104,600,819 (4)</u>	<u>101,970,998</u>
Total fund balances/net assets	<u>107,648,795</u>	<u>187,506,822</u>	<u>-</u>	<u>295,155,617</u>
Total liabilities and fund balances/net assets	<u>\$137,054,771</u>	<u>\$201,678,913</u>	<u>\$ -</u>	<u>\$338,733,684</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Balance Sheet To The Statement Of Net Assets
June 30, 2004

Total fund balances - governmental funds	\$107,648,795
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Amounts reported for governmental activities in the statement of net assets are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:

Land improvements	\$ 79,216,438
Other capital assets	48,948,034
Accumulated depreciation	(81,332,434)
Land	138,688,453
Other capital assets, not depreciated	719,990
Construction in progress	<u>15,438,432</u>

Total capital assets	201,678,913
----------------------	-------------

- | | |
|---|-------------|
| (2) Bonds payable are not reported in the governmental funds. | (8,494,294) |
|---|-------------|

- | | |
|---|-------------|
| (3) Accrued vacation is not reported in the governmental funds. | (5,677,797) |
|---|-------------|

- | | |
|--|----------|
| (4) Reclassify reserved fund balances/net assets to unrestricted fund balances/net assets. | <u>-</u> |
|--|----------|

Total net assets	<u>\$295,155,617</u>
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The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures And Changes In Fund Balances
To The Statement Of Activities
For The Year Ended June 30, 2004

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues				
Appropriations	\$41,570,772	\$ -	\$(4,693,638) (5)	\$36,877,134
Intergovernmental revenues	15,692,672	-	-	15,692,672
General leases, licenses and permits	26,439,133	-	-	26,439,133
Fuel taxes	1,795,008	-	-	1,795,008
Interest	1,691,625	-	-	1,691,625
Other	<u>1,657,551</u>	<u>561,333 (4)</u>	<u>-</u>	<u>2,218,884</u>
Total revenues	<u>88,846,761</u>	<u>561,333</u>	<u>(4,693,638)</u>	<u>84,714,456</u>
Expenditures				
Economic development	3,467,727	(170,016) (1)	-	3,678,665
		121,581 (1)	-	
		2,710 (1)	-	
		257,631 (1)	-	
		(968) (3)	-	
Environmental protection	30,906,725	(798,262) (1)	-	31,501,702
		(829,194) (1)	-	
		8,434 (1)	-	
		2,226,399 (1)	-	
		(12,400) (3)	-	
Culture and recreation	19,541,317	(568,329) (1)	432,967 (6)	26,316,130
		2,998,972 (1)	-	
		2,108 (1)	-	
		3,942,691 (1)	-	
		(33,596) (3)	-	
Public safety	241,725	(3,672) (1)	-	571,634
		161,610 (1)	-	
		167,014 (1)	-	
		4,957 (3)	-	
Individual rights	3,131,682	59,358 (1)	-	3,156,361
		(34,679) (3)	-	
Government-wide support	4,292,824	(50,512) (1)	-	4,349,153
		112,192 (1)	-	
		(5,351) (3)	-	
Capital outlays	8,568,740	(7,988,428) (1)	-	580,312
Principal on long-term debt	555,766	(555,766) (2)	-	-
Interest on long-term debt	<u>432,967</u>	<u>-</u>	<u>(432,967) (6)</u>	<u>-</u>
Total expenditures	<u>71,139,473</u>	<u>(985,516)</u>	<u>-</u>	<u>70,153,957</u>
Other financing sources (uses) and lapsed appropriations:	17,707,288	1,546,849	(4,693,638)	14,560,499
Net operating transfers	(545,267)	8,320	-	(536,947)
Lapsed appropriations	<u>(4,693,638)</u>	<u>-</u>	<u>4,693,638 (5)</u>	<u>-</u>
Change in fund balances/net assets	<u>\$12,468,383</u>	<u>\$ 1,555,169</u>	<u>\$ -</u>	<u>\$14,023,552</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Statement Of Revenues And Expenditures - Budget And Actual - General Fund
For The Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
Appropriations	\$26,109,133	\$26,109,133	\$26,109,133	\$ -
Expenditures:				
Economic development	1,722,319	1,722,319	1,651,040	71,279
Environmental protection	14,698,324	14,698,324	13,866,494	831,830
Culture and recreation	7,362,622	7,362,622	6,937,103	425,519
Public safety	128,870	128,870	101,688	27,182
Individual rights	2,196,998	2,196,998	2,172,639	24,359
Total expenditures	26,109,133	26,109,133	24,728,964	1,380,169
Excess of revenues over expenditures	\$ -	\$ -	\$ 1,380,169	\$ 1,380,169

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Statement Of Revenues And Expenditures - Budget And Actual - Other Major Funds
For The Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<u>Federal Grant Fund</u>				
Revenues	\$25,039,608	\$25,039,608	\$13,623,911	\$(11,415,697)
Expenditures:				
Economic development	4,048,410	4,048,410	1,256,181	2,792,229
Environmental protection	16,291,416	16,291,416	10,086,418	6,204,998
Culture and recreation	4,461,127	4,461,127	3,359,015	1,102,112
Public safety	166,021	166,021	138,512	27,509
Government-wide support	72,634	72,634	-	72,634
Total expenditures	<u>25,039,608</u>	<u>25,039,608</u>	<u>14,840,126</u>	<u>10,199,482</u>
Excess of revenues over expenditures	\$ -	\$ -	<u>\$(1,216,215)</u>	<u>\$ (1,216,215)</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Statement Of Revenues And Expenditures - Budget And Actual - Other Major Funds
For The Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<u>Water and Land Development Fund</u>				
Revenues	\$ 110,000	\$ 110,000	\$ 30,678	\$ (79,322)
Expenditures:				
Economic development	<u>110,000</u>	<u>110,000</u>	<u>-</u>	<u>110,000</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,678</u>	<u>\$ 30,678</u>
 <u>Ocean-Based Recreation Fund</u>				
Revenues	\$15,607,162	\$15,607,162	\$9,836,750	\$(5,770,412)
Expenditures:				
Culture and recreation	<u>15,607,162</u>	<u>15,607,162</u>	<u>7,771,166</u>	<u>7,835,996</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,065,584</u>	<u>\$ 2,065,584</u>

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department of Land and Natural Resources (DLNR), State of Hawaii (the State), is headed by the Board of Land and Natural Resources. The DLNR manages, administers, and exercises control over public lands, water resources, minerals and all other interests therein and exercises such powers of disposition thereof as authorized by law. The DLNR also manages and administers the State's parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, natural area reserves, and other functions assigned to it by law. In connection with the above, the DLNR leases certain lands and facilities under its jurisdiction to individuals and organizations under long-term and short-term agreements.

The accompanying financial statements of the DLNR have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This Statement establishes new financial reporting requirements for state and local governments throughout the United States of America. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the DLNR has implemented, if applicable, the following GASB Statements: Statement 33 - Accounting and Financial Reporting for Nonexchange Transactions, Statement 36 - Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus and Statement 38 - Certain Financial Statement Note Disclosures.

The accompanying financial statements present the financial position of the DLNR and the various funds and fund types and the changes in financial position of the DLNR and the various funds and fund types. The financial statements are presented as of June 30, 2004, and for the year then ended.

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The following is a summary of significant accounting policies.

Reporting Entity

The DLNR is part of the executive branch of the State. The DLNR's financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DLNR. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DLNR's assets, liabilities, net assets and financial activities.

Departmental and Governmental Fund Financial Statements

The departmental financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the DLNR. The effect of interfund activity has been removed from these departmental financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints place on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are presented as reserves of fund balances.

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Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.
- Receivables are amounts owed to DLNR at year end and are shown as reserved to indicate that portion of the fund balance that is not available for funding current expenditures.
- Continuing appropriations, which include specific legislative appropriations which do not lapse at the end of the year.
- Unexpended federal awards received for the restoration of the Island of Kaho'olawe as outlined in Title X of the Fiscal Year 1994 Department of Defense Appropriations Act, Public Law 103-139, 107 Stat. 1418.

Unreserved fund balances represent resources that have not been internally designated.

Financial statements are provided for DLNR's governmental and fiduciary funds. The DLNR has no proprietary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Departmental Financial Statements - The departmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting . Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DLNR considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. The DLNR has no principal revenue sources which are considered susceptible to accrual.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2004, has been reported only in the departmental financial statements.

Fund Accounting

The accounts of the DLNR are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of the DLNR that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund - The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special Revenue Funds - Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from assessments and fees. DLNR's major special revenue funds are as follows:

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Federal Grant Fund - This fund was established by DLNR to account for its federal grant expenditures and related federal grant reimbursements. It does not account for monies received from the federal government for the rehabilitation of the island of Kaho'olawe.

Water and Land Development Fund - This fund was established to account for revenues to be used for engineering services related to the development and administration of the Capital Improvements Projects Program and Flood Control/Dam Safety Programs.

Ocean-Based Recreation Fund - This fund was established under HRS §248-8. The fund receives its revenues from fuel taxes and rents from mooring permits at the State's small boat harbors. These revenues are used for the planning, development, management, operations or maintenance of the small boat harbors.

Expendable Trust Funds - Expendable trust funds account for cash collected and expended by the DLNR for designated purposes. DLNR's major expendable trust fund is described as follows:

Kaho'olawe Rehabilitation Trust Fund - This fund was established under HRS Title I, Chapter 6K. The primary source of revenues to this fund are monies received from the federal government for the rehabilitation and environmental restoration of the island of Kaho'olawe.

Capital Projects Fund - The capital projects fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities. These resources are derived from State appropriations.

Fiduciary Fund

The DLNR presents as a fiduciary fund, assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations.

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Appropriations

An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Cash and Short-Term Cash Investments

Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consists of cash and short-term cash investments held in the State Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental fund balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

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Accumulated Vacation and Sick Leave

Eligible employees who are employed on or before July 1, 2001 are credited with vacation at a rate of 168 hours per calendar year. Eligible employees who are employed after July 1, 2001 are credited with vacation at a rate of 96 hours per calendar year during the first five years of service, 144 hours per calendar year during the next five years of service, 168 hours per calendar year during the next ten years of service and 192 hours per calendar year thereafter. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Eligible employees employed on or before July 1, 2001 are credited with sick leave at a rate of one and three-quarter days per month. Eligible employees employed after July 1, 2001 are credited with sick leave at a rate of one and one-quarter days per month through the first ten years of service and at a rate of one and three-quarter days per month thereafter. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DLNR's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2004 was \$18,414,930.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

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Inventory

Inventory of materials and supplies is recorded as expenditures when purchased.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment and vehicles, are reported in the departmental financial statements. Capital assets are assets which have a cost of \$5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the departmental financial statements.

Capital assets are depreciated in the departmental financial statements on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land, certain land improvements and construction-in-progress. Generally, estimated useful lives are as follows:

Furniture and equipment	5 - 7 years
Vehicles	5 years
Buildings and land improvements	15-40 years

Grants

Federal awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement type awards are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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2. BUDGETING AND BUDGETARY CONTROL

The DLNR's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DLNR as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the DLNR's general fund are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, the DLNR's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statements of revenues and expenditures - budget and actual, are presented on the budgetary basis. A reconciliation of the general and major special revenue funds' revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2004, to the general and major special revenue funds' revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$802,009 and \$248,924 in the general and major special revenue funds, respectively, for the period from June 16, 2004 through June 30, 2004, are to be funded with monies budgeted for fiscal 2005. In addition, at June 30, 2004, the DLNR accrued expenditures of \$148,896 and \$512,658 in the general and major special revenue funds, respectively, for certain goods and services received through June 30, 2004, which the DLNR will fund with monies budgeted for fiscal 2005. Accordingly, these amounts are excluded from the statements of revenues and expenditures - budget and actual. For accounting purposes these amounts are reflected in the departmental and governmental fund financial statements at June 30, 2004, in accordance with accounting principles generally accepted in the United States of America.

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In fiscal 2003 under section 78-13 HRS, salaries and wages for the period from June 16, 2003 to June 30, 2003 were funded with monies budgeted for fiscal 2004. In addition, at June 30, 2003, the DLNR accrued certain salaries and wages for the period prior to June 16, 2003 and certain goods and services received through June 30, 2003, which the DLNR funded with monies budgeted for fiscal 2004. Accordingly, these amounts are included in the statements of revenues and expenditures - budget and actual, for the year ended June 30, 2004. These salaries, wages, goods and services aggregated \$1,038,126 and \$551,862 in the general and major special revenue funds, respectively.

The following schedule reconciles the general and major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis) for the fiscal year ended June 30, 2004.

	General Fund	Major Special Revenue Funds		
		Federal Grant Fund	Water and Land Development Fund	Ocean-Based Recreation Fund
Excess of revenues over (under) expenditures - actual on budgetary basis	\$1,380,169	\$(1,216,215)	\$30,678	\$2,065,584
Current year's appropriations included in reserved for encumbrances at June 30, 2004	1,111,314	4,256,676	-	611,547
Expenditures for liquidation of prior years' encumbrances	(856,239)	(2,703,784)	-	(418,464)
Fiscal 2003 salaries and wages and other expenditures funded by fiscal 2004 budget	1,038,126	319,696	-	232,166
Fiscal 2004 salaries and wages funded by fiscal 2005 budget under Section 78-13 HRS	(802,009)	(60,370)	-	(188,554)
Fiscal 2004 expenditures funded by fiscal 2005 budget	<u>(148,896)</u>	<u>(131,835)</u>	<u>-</u>	<u>(380,823)</u>
Excess of revenues over expenditures - GAAP basis	<u>\$1,722,465</u>	<u>\$ 464,168</u>	<u>\$30,678</u>	<u>\$1,921,456</u>

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3. CASH AND SHORT-TERM CASH INVESTMENTS HELD IN STATE TREASURY

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2004, the carrying amount, which approximates the bank balance of the DLNR's cash and short-term cash investments, was \$134,924,784 for its governmental funds and \$3,086,140 for its fiduciary funds.

4. RECEIVABLES

At June 30, 2004, receivables for general leases and licenses for governmental funds consisted of the following:

	Ocean-Based Recreation Fund	Other Funds	Total
Rents, fees and licenses	\$ 848,151	\$ 14,525	\$862,676
Less allowance for doubtful accounts	<u>(734,255)</u>	<u>(14,296)</u>	<u>(748,551)</u>
	<u>\$ 113,896</u>	<u>\$ 229</u>	<u>\$114,125</u>

The Department has installment agreements with certain lessees for accounts receivable of the trust and agency fund which aggregated \$517,415 at June 30, 2004. These agreements provide for interest rates from 0% to 9.75% and payment terms from 1 to 30 years.

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At June 30, 2004, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$890,627
Less allowance for doubtful accounts	<u>(280,974)</u>
	<u>\$609,653</u>

5. CAPITAL ASSETS

The changes in capital assets were as follows:

	<u>Beginning Balance</u> <u>July 1, 2003</u>	<u>Additions,</u> <u>Adjustments</u> <u>and Transfers</u>	<u>Disposals,</u> <u>Adjustments</u> <u>and Transfers</u>	<u>Ending</u> <u>Balance</u> <u>June 30, 2004</u>
Capital assets, not being depreciated -				
Land	\$138,688,453	\$ -	\$ -	\$138,688,453
Land improvements	688,400	-	-	688,400
Construction-in-progress	10,987,407	7,988,428	(3,537,403)	15,438,432
Other assets	<u>31,590</u>	<u>-</u>	<u>-</u>	<u>31,590</u>
Total capital assets, not being depreciated	<u>150,395,850</u>	<u>7,988,428</u>	<u>(3,537,403)</u>	<u>154,846,875</u>
Capital assets, being depreciated -				
Buildings	30,557,136	364,353	(441,792)	30,479,697
Land improvements	77,865,068	3,256,908	(1,905,538)	79,216,438
Furniture and equipment	5,655,878	661,899	(126,838)	6,190,939
Motor vehicles	<u>11,234,557</u>	<u>1,404,021</u>	<u>(361,180)</u>	<u>12,277,398</u>
Total capital assets, being depreciated	<u>125,312,639</u>	<u>5,687,181</u>	<u>(2,835,348)</u>	<u>128,164,472</u>
Less: accumulated depreciation for -				
Buildings	(17,514,142)	(879,442)	-	(18,393,584)
Land improvements	(43,481,700)	(4,547,239)	-	(48,028,939)
Furniture and equipment	(4,370,996)	(483,284)	113,586	(4,740,694)
Motor vehicles	<u>(9,580,104)</u>	<u>(950,293)</u>	<u>361,180</u>	<u>(10,169,217)</u>
Total accumulated depreciation	<u>(74,946,942)</u>	<u>(6,860,258)</u>	<u>474,766</u>	<u>(81,332,434)</u>
Total capital assets, being depreciated, net	<u>50,365,697</u>	<u>(1,173,077)</u>	<u>(2,360,582)</u>	<u>46,832,038</u>
Capital assets, net	<u>\$200,761,547</u>	<u>\$ 6,815,351</u>	<u>\$(5,897,985)</u>	<u>\$201,678,913</u>

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Changes to capital assets consisted of the following:

Additions:	
Capital outlays and equipment purchases	<u>\$ 9,579,219</u>
Disposals:	
Disposed capital assets, at cost	\$ 488,018
Accumulated depreciation of disposed capital assets	<u>474,766</u>
Loss on disposal of capital assets	<u>\$ (13,252)</u>
Adjustments:	
Reduce land and buildings for costs which should not have been capitalized	<u>\$(2,347,330)</u>
Transfer-in of equipment	<u>\$ 8,320</u>
Other income from transfer-in of equipment from the federal government	<u>\$ 561,333</u>
Expense completed construction contracts, less than the capitalization threshold	<u>\$ (105,639)</u>

Depreciation expense for the year ended June 30, 2004, was charged to functions of the DLNR as follows:

Economic development	\$ 257,631
Environmental protection	2,226,399
Culture and recreation	3,942,691
Public safety	167,014
Individual rights	59,358
Government-wide support	<u>112,192</u>
	<u>\$ 6,765,285</u>

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6. LONG-TERM OBLIGATIONS

The changes in long-term obligations were as follows:

	<u>Accrued Vacation</u>	<u>General Obligation Bonds</u>
Balance at July 1, 2003	\$5,759,834	\$9,050,060
Principal payments	-	(548,552)
Net decrease in accrued vacation	(82,037)	-
Bonds refunded	-	(535,098)
New bonds issued	<u>-</u>	<u>527,884</u>
Balance at June 30, 2004	<u>\$5,677,797</u>	<u>\$8,494,294</u>

The following are portions of the State of Hawaii general obligation bonds allocated to the DLNR under Acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts are made to the State general fund. The details of these general obligation bonds at June 30, 2004 are as follows:

\$1,867,548 series BW bonds dated March 1, 1992; due in annual installments of \$103,742; final payment on March 1, 2012; interest at 5.15% to 6.40% payable semi-annually	\$726,195
\$1,648,311 series BZ bonds dated October 1, 1992; due in annual installments of \$103,019 commencing October 1, 2000; final payment on October 1, 2012; interest at 5.00% to 6.00% payable semi-annually	824,156

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\$987,378 series CB refunding bonds dated January 1, 1993; due in annual installments of \$75,945; final payment on January 1, 2008; interest at 4.30% to 5.75% payable semi-annually	\$ 303,780
\$1,852,409 series CC refunding bonds dated February 1, 1993; due in annual installments of \$132,323 through February 1, 2005 and \$132,295 through final payment on February 1, 2009; interest at 3.85% to 7.75% payable semi-annually	396,886
\$1,218,020 series CH bonds dated November 1, 1993; due in annual installments of \$67,673 through November 1, 2010 and \$67,649 through final payment on November 1, 2013; interest at 4.10% to 6.00% payable semi-annually	608,962
\$2,540,742 series CI refunding bonds dated November 1, 1993; due in annual installments of \$158,674; final payment on November 1, 2010; interest at 4.00% to 5.00% payable semi-annually	1,110,454
\$756,420 series CK bonds dated September 1, 1995; due in annual installments of \$42,019; final payment on September 1, 2006; interest at 5.00% to 6.00% payable semi-annually	84,038
\$1,543,701 series CO bonds dated March 1, 1997; due in varying semi-annual installments; final payment on March 1, 2011; interest at 4.50% to 6.00% payable semi-annually	1,023,716
\$19,478 series CQ bonds dated October 1, 1997; due in varying annual installments; final payment on October 1, 2004; interest at 4.00% to 5.00% payable semi-annually	3,206

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\$129,212 series CN bonds dated March 1, 1997; due in varying annual installments commencing March 1, 2002 through final payment on March 1, 2017; partially refunded \$11,135 by the issuance of refunding General Obligation Bonds, Series CS, dated April 1, 1998; interest at 5.25% to 6.25% payable semi-annually \$ 101,983

\$214 series CP bonds dated October 1, 1997; due in varying annual installments commencing April 1, 2002 through final payment on April 1, 2021; interest at 5.00% to 5.50% payable semi-annually 199

\$85,000 series CR bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2006 through final payment on April 1, 2021; interest at 4.75% to 6.00% payable semi-annually 85,000

\$1,489,544 series CS bonds dated April 1, 1998; due in varying annual installments commencing April 1, 2003 through final payment on April 1, 2009; interest at 5.00% to 5.25% payable semi-annually 1,125,050

\$576,754 series CT bonds dated September 15, 1999; due in varying annual installments commencing September 1, 2005 through final payment on September 1, 2019; interest at 4.50% to 5.80% payable semi-annually 228,231

\$456,926 series CW bonds dated August 1, 2001; due in varying annual installments commencing August 1, 2005 through final payment on August 1, 2015; interest at 3.40% to 5.50% payable semi-annually 456,926

\$887,628 series CY bonds dated February 2, 2002; due in varying annual installments commencing February 1, 2007 through final payment on February 1, 2015; interest at 3.60% to 5.75% payable semi-annually 887,628

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\$396,612 series DB bonds dated September 16, 2003;
due in varying annual installments commencing
September 1, 2008 through final payment on September 1,
2016; interest at 5.00% to 5.25% payable semi-annually \$ 396,612

\$131,272 series DC bonds dated September 16, 2003;
principal due on September 1, 2005; interest at 3.00%
payable semi-annually 131,272

\$8,494,294

Interest paid by the DLNR during the fiscal year ended June 30, 2004, approximated \$433,000.

The approximate annual requirements to amortize the general obligation bond's debt and related interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2005	\$ 568,372	\$ 408,948	\$ 977,320
2006	1,090,659	375,528	1,466,187
2007	1,193,975	300,903	1,494,878
2008	1,178,615	242,928	1,421,543
2009	1,167,519	184,253	1,351,772
2010	806,635	128,626	935,261
2011	827,676	88,028	915,704
2012	507,722	53,228	560,950
2013	416,711	30,356	447,067
2014	291,062	17,608	308,670
2015	235,806	10,183	245,989
2016	109,824	4,054	113,878
2017	71,490	2,470	73,960
2018	6,549	1,392	7,941
2019	6,877	1,065	7,942
2020	7,221	721	7,942
2021	<u>7,581</u>	<u>360</u>	<u>7,941</u>
Total	<u>\$8,494,294</u>	<u>\$1,850,651</u>	<u>\$10,344,945</u>

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June 30, 2004

7. RETIREMENT BENEFITS

Plan Description - All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Funding Policy - Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2004

The State's contribution requirements as of June 30, 2003, 2002, and 2001 were approximately \$158,622,000, \$113,984,000, and \$7,690,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2002 and 2001 required contributions. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also Act 284, SLH of 2001, provided an increase in the pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2003 approximately \$1,972,441,000.

Post-Retirement Health Care and Life Insurance Benefits - In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 23,300 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2003, expenditures of \$127,827,000 were recognized for post-retirement health care and life insurance benefits, approximately \$33,630,125 of which is attributable to the Component Units.

DEPARTMENT OF LAND AND NATURAL RESOURCES
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June 30, 2004

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

Cost of Retirement Benefits - The DLNR's general fund share of the retirement system expense for the fiscal year ended June 30, 2004 was included as an item to be expended by the Department of Budget and Finance, State of Hawaii, and is not reflected in the DLNR's financial statements. The DLNR's special revenue funds, expendable trust funds and capital projects fund contributed approximately \$828,000 to the ERS for the fiscal year ended June 30, 2004. The entire ERS' actuarial determination of the employer contribution requirements were met as of June 30, 2004.

8. COMMITMENTS AND CONTINGENCIES

Litigation - The DLNR is involved in several lawsuits and complaints which management believes arose in the normal course of operations. Based on discussions with counsel, management has ascertained that lawsuits and complaints against the State of Hawaii are typically paid through an appropriation from the General Fund of the State of Hawaii. Accordingly, management is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of the DLNR.

Insurance - Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. All payments for workers' compensation are reflected in the respective department or agency's financial statements. Workers' compensation payments made by the DLNR for the fiscal year ended June 30, 2004 approximated \$174,500 and are reflected as expenditures of the general fund. Amounts related to unpaid workers' compensation are reflected in the Statement of Net Assets. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DLNR's financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported were reviewed at year end. In the opinion of management, the estimated losses from these claims are not material.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2004

Deferred Compensation Plan - In 1983, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. The Department of Human Resources Development, State of Hawaii, has the fiduciary responsibility of administering the plan. The plan assets are protected from claims of the State's creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Due to State Treasury - Included in the special revenue funds are approximately \$7,294,000 of federal fund reimbursements received or receivable by the DLNR for program expenditures that were paid with previous year's general operating funds and \$681,000 of federal fund reimbursements received by the DLNR for the acquisition or construction of major capital facilities that were paid with the proceeds of general obligation bonds. Under Act 328 of the 1997 Regular Session, such monies are owed to the State Treasury.

Other - At June 30, 2004, substantially all of the reserve for encumbrances in the capital projects fund relates to construction contracts.

9. SMALL BOAT HARBORS AND BOAT RAMPS PROGRAM

During the year ended June 30, 2004, the DLNR's special revenue funds were charged by the Department of Transportation, State of Hawaii, approximately \$101,000 for services rendered during the year in connection with the Small Boat Harbors and Boat Ramps Program. At June 30, 2004, the DLNR owed the Department of Transportation, State of Hawaii, approximately \$204,000 for these services.

10. CENTRAL SERVICE AND ADMINISTRATION FEES

During the fiscal year ended June 30, 2004, the DLNR's special revenue funds were charged by the Department of Budget and Finance, State of Hawaii, approximately \$1,915,000 in central service and administration fees. At June 30, 2004, the DLNR owed the Department of Budget and Finance, State of Hawaii, approximately \$530,000 in unpaid fees.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2004

11. DUE TO OTHER STATE AGENCIES

The DLNR has recorded a liability of \$6,180,795 in its Water and Land Development Fund, owed to the State of Hawaii (State), which in a previous year was reversed as it was believed that there was no further obligation to reimburse the State for the amount. However, the DLNR has since determined that the liability needs to be reported until the status of this obligation can be formally resolved with the State. The liability is related to advances from the State during the 1950's and 1960's for the development of water and irrigation projects. The projects were completed and subsequently transferred to the Department of Agriculture, State of Hawaii; however, the liability remained with the DLNR. The DLNR's attempts to resolve this matter with the State have not been successful but otherwise, the DLNR has never been notified of any requirement to repay the advances. This resulted in a \$6,180,795 restatement to the July 1, 2003 unreserved fund balance of the Governmental Funds.

PART III
SUPPLEMENTAL SECTION

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Combining Balance Sheet -

Nonmajor Governmental Funds

June 30, 2004

	Bureau of Conveyances Fund	Special Land Development Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
ASSETS											
Cash and short-term cash investments held in State Treasury	\$6,331,569	\$8,764,273	\$394,020	\$444,002	\$77,047	\$535,881	\$823,427	\$71,900	\$7,786,930	\$21,660	\$25,250,709
Receivables:											
General leases and licenses, net of allowance for losses	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$6,331,569</u>	<u>\$8,764,273</u>	<u>\$394,020</u>	<u>\$444,002</u>	<u>\$77,047</u>	<u>\$535,881</u>	<u>\$823,427</u>	<u>\$71,900</u>	<u>\$7,786,930</u>	<u>\$21,660</u>	<u>\$25,250,709</u>
LIABILITIES											
Vouchers and contracts payable	\$ 78,984	\$ 129,757	\$ 21,691	\$123,283	\$ -	\$100,023	\$ 8,708	\$ 36,973	\$ 525,993	\$ -	\$ 1,025,412
Accrued wages and employee benefits payable	118,279	145,542	-	-	-	7,098	11,017	86,781	-	5,669	374,386
Due to other State agencies	317,227	96,650	-	-	-	-	-	-	42,399	-	456,276
Deferred revenue	-	258,242	-	-	-	-	4,601	-	-	-	262,843
Total liabilities	<u>514,490</u>	<u>630,191</u>	<u>21,691</u>	<u>123,283</u>	<u>-</u>	<u>107,121</u>	<u>24,326</u>	<u>123,754</u>	<u>568,392</u>	<u>5,669</u>	<u>2,118,917</u>
FUND BALANCES											
Reserved for:											
Encumbrances	272,678	2,603,048	131,052	146,652	-	162,677	382,556	78,347	1,013,746	-	4,790,756
Receivables	-	-	-	-	-	-	-	-	-	-	-
Total reserved fund balances	<u>272,678</u>	<u>2,603,048</u>	<u>131,052</u>	<u>146,652</u>	<u>-</u>	<u>162,677</u>	<u>382,556</u>	<u>78,347</u>	<u>1,013,746</u>	<u>-</u>	<u>4,790,756</u>
Unreserved:											
Unreserved reported in nonmajor -											
Special revenue funds	5,544,401	5,531,034	241,277	174,067	77,047	266,083	416,545	(130,201)	6,204,792	15,991	18,341,036
Total unreserved fund balances	<u>5,544,401</u>	<u>5,531,034</u>	<u>241,277</u>	<u>174,067</u>	<u>77,047</u>	<u>266,083</u>	<u>416,545</u>	<u>(130,201)</u>	<u>6,204,792</u>	<u>15,991</u>	<u>18,341,036</u>
Total fund balances	<u>5,817,079</u>	<u>8,134,082</u>	<u>372,329</u>	<u>320,719</u>	<u>77,047</u>	<u>428,760</u>	<u>799,101</u>	<u>(51,854)</u>	<u>7,218,538</u>	<u>15,991</u>	<u>23,131,792</u>
Total liabilities and fund balances	<u>\$6,331,569</u>	<u>\$8,764,273</u>	<u>\$394,020</u>	<u>\$444,002</u>	<u>\$77,047</u>	<u>\$535,881</u>	<u>\$823,427</u>	<u>\$71,900</u>	<u>\$7,786,930</u>	<u>\$21,660</u>	<u>\$25,250,709</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2004

		Na Ala Hele Park Development Fund	Wildlife Revolving Fund	Sport-Fish Restoration Fund	Park Development Operations Fund	State Parks Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Donations, Gifts and Grants Fund	OHA Kikakakoeka Trust Fund	Total Other Governmental Funds
ASSETS											
Cash and short-term cash investments held in State Treasury	Subtotal Brought Forward	\$379,739	\$458,526	\$42,548	\$120,036	\$3,410,136	\$ 3,817	\$ 3,164	\$53,611	\$1,398,022	\$31,120,308
Receivables:		-	-	-	-	229	-	-	-	-	229
General leases and licenses, net of allowance for losses		\$379,739	\$458,526	\$42,548	\$120,036	\$3,410,365	\$ 3,817	\$ 3,164	\$53,611	\$1,398,022	\$31,120,537
LIABILITIES											
Vouchers and contracts payable	\$ 1,025,412	\$ 17,744	\$ 21,936	\$ 1,699	\$ 11,853	\$ 49,472	\$ -	\$ -	\$ -	\$ -	\$ 1,128,116
Accrued wages and employee benefits payable	374,386	9,619	7,984	-	-	35,943	7,421	-	-	-	435,353
Due to other State agencies	456,276	-	-	-	-	48,650	-	-	-	-	504,926
Deferred revenue	262,843	-	-	-	-	108,162	-	-	-	-	371,005
Total liabilities	2,118,917	27,363	29,920	1,699	11,853	242,227	7,421	-	-	-	2,439,400
FUND BALANCES											
Reserved for:											
Encumbrances	4,790,756	28,612	47,062	-	18,590	937,427	-	-	-	1,282,499	7,104,946
Receivables	-	-	-	-	-	229	-	-	-	-	229
Total reserved fund balances	4,790,756	28,612	47,062	-	18,590	937,656	-	-	-	1,282,499	7,105,175
Unreserved:											
Unreserved reported in nonmajor -											
Special revenue funds											
Total unreserved fund balances	18,341,036	323,764	381,544	40,849	89,593	2,230,482	(3,604)	3,164	53,611	115,523	21,575,962
Total fund balances	18,341,036	323,764	381,544	40,849	89,593	2,230,482	(3,604)	3,164	53,611	115,523	21,575,962
Total liabilities and fund balances	23,131,792	352,376	428,606	40,849	108,183	3,168,138	(3,604)	3,164	53,611	1,398,022	28,681,137
	\$25,250,709	\$379,739	\$458,526	\$42,548	\$120,036	\$3,410,365	\$ 3,817	\$ 3,164	\$53,611	\$1,398,022	\$31,120,537

DEPARTMENT OF LAND AND NATURAL RESOURCES

STATE OF HAWAII

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2004

	Bureau of Conveyances Fund	Special Land Development Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Aquatic Resources Fund	Forests and Wildlife Fund	Water Resources Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historical Preservation Fund	Subtotal Carried Forward
Revenues											
General leases, licenses and permits	\$5,246,805	\$6,025,927	\$134,683	\$322,675	\$ -	\$ -	\$ 85,858	\$ -	\$4,358,054	\$ 780	\$16,174,782
Fuel taxes	-	-	-	-	-	-	-	-	-	-	-
Interest	97,716	321,144	10,622	11,530	2,150	14,778	10,914	1,299	146,887	299	617,339
Other	-	406,317	-	-	-	1,100	1,750	31,224	-	43,065	483,456
Total revenues	<u>5,344,521</u>	<u>6,753,388</u>	<u>145,305</u>	<u>334,205</u>	<u>2,150</u>	<u>15,878</u>	<u>98,522</u>	<u>32,523</u>	<u>4,504,941</u>	<u>44,144</u>	<u>17,275,577</u>
Expenditures											
Current:											
Economic development	-	-	178,586	388,481	36,185	-	-	-	-	-	603,252
Environmental protection	-	-	-	-	-	610,835	232,627	1,299,380	3,054,722	-	5,197,564
Culture and recreation	-	-	-	-	-	-	-	-	-	43,460	43,460
Individual rights	1,058,355	-	-	-	-	-	-	-	-	-	1,058,355
Government-wide support	-	4,259,933	-	-	-	-	-	-	-	-	4,259,933
Total expenditures	<u>1,058,355</u>	<u>4,259,933</u>	<u>178,586</u>	<u>388,481</u>	<u>36,185</u>	<u>610,835</u>	<u>232,627</u>	<u>1,299,380</u>	<u>3,054,722</u>	<u>43,460</u>	<u>11,162,564</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,286,166</u>	<u>2,493,455</u>	<u>(33,281)</u>	<u>(54,276)</u>	<u>(34,035)</u>	<u>(594,957)</u>	<u>(134,105)</u>	<u>(1,266,857)</u>	<u>1,450,219</u>	<u>684</u>	<u>6,113,013</u>
Other financing sources (uses)											
Operating transfers in	1,388,680	3,197,809	389,813	162,794	-	683,111	626,636	1,211,000	4,249,796	20,533	11,930,172
Operating transfers out	(1,391,880)	(6,857,632)	(389,813)	(162,794)	-	(25,292)	(383,870)	-	(4,295,699)	(20,533)	(13,527,513)
Total other financing sources (uses)	<u>(3,200)</u>	<u>(3,659,823)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>657,819</u>	<u>242,766</u>	<u>1,211,000</u>	<u>(45,903)</u>	<u>-</u>	<u>(1,597,341)</u>
Net change in fund balances	<u>4,282,966</u>	<u>(1,166,368)</u>	<u>(33,281)</u>	<u>(54,276)</u>	<u>(34,035)</u>	<u>62,862</u>	<u>108,661</u>	<u>(55,857)</u>	<u>1,404,316</u>	<u>684</u>	<u>4,515,672</u>
Fund balances at July 1, 2003	<u>1,534,113</u>	<u>9,300,450</u>	<u>405,610</u>	<u>374,995</u>	<u>111,082</u>	<u>365,898</u>	<u>690,440</u>	<u>4,003</u>	<u>5,814,222</u>	<u>15,307</u>	<u>18,616,120</u>
Fund balances at June 30, 2004	<u>\$5,817,079</u>	<u>\$8,134,082</u>	<u>\$372,329</u>	<u>\$320,719</u>	<u>\$ 77,047</u>	<u>\$ 428,760</u>	<u>\$799,101</u>	<u>\$ (51,854)</u>	<u>\$7,218,538</u>	<u>\$15,991</u>	<u>\$23,131,792</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances -
Nonmajor Governmental Funds
For The Year Ended June 30, 2004

	Subtotal Brought Forward	Na Ala Hele Park Development Fund	Wildlife Revolving Fund	Sport-Fish Restoration Fund	Park Development and Operations Fund	State Parks Fund	Natural Physical Environment Fund	Preservation of Endangered Plants Fund	Donations, Gifts and Grants Fund	OHA Kikakakoeka Trust Fund	Total Other Governmental Funds
Revenues											
General leases, licenses and permits	\$16,174,782	\$ 45,966	\$302,436	\$ 25,722	\$ -	\$1,667,213	\$ -	\$ -	\$ -	\$ -	\$ 18,216,119
Fuel taxes	-	239,538	-	-	-	-	-	-	-	-	239,538
Interest	617,339	8,873	9,217	1,051	-	83,801	-	-	-	34,688	754,969
Other	483,456	738	122,283	1,450	-	901,213	2,055	-	56,500	-	1,567,695
Total revenues	<u>17,275,577</u>	<u>295,115</u>	<u>433,936</u>	<u>28,223</u>	<u>-</u>	<u>2,652,227</u>	<u>2,055</u>	<u>-</u>	<u>56,500</u>	<u>34,688</u>	<u>20,778,321</u>
Expenditures											
Current:											
Economic development	603,252	-	-	-	-	-	-	-	-	-	603,252
Environmental protection	5,197,564	-	-	-	-	-	229,383	-	6,500	-	5,433,447
Culture and recreation	43,460	304,437	201,119	17,675	486,773	1,453,307	-	-	-	-	2,506,771
Individual rights	1,058,355	-	-	-	-	-	-	-	-	-	1,058,355
Government-wide support	4,259,933	-	-	-	-	-	-	-	-	32,891	4,292,824
Total expenditures	<u>11,162,564</u>	<u>304,437</u>	<u>201,119</u>	<u>17,675</u>	<u>486,773</u>	<u>1,453,307</u>	<u>229,383</u>	<u>-</u>	<u>6,500</u>	<u>32,891</u>	<u>13,894,649</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,113,013</u>	<u>(9,322)</u>	<u>232,817</u>	<u>10,548</u>	<u>(486,773)</u>	<u>1,198,920</u>	<u>(227,328)</u>	<u>-</u>	<u>50,000</u>	<u>1,797</u>	<u>6,883,672</u>
Other financing sources (uses)											
Operating transfers in	11,930,172	369,818	361,396	33,923	584,164	1,855,531	223,724	3,164	3,611	1,354,325	16,719,828
Operating transfers out	(13,527,513)	(565,607)	(165,607)	(33,923)	(5,083)	(2,972,286)	(84)	(3,164)	(3,611)	(1,354,325)	(18,631,203)
Total other financing sources (uses)	<u>(1,597,341)</u>	<u>(195,789)</u>	<u>195,789</u>	<u>-</u>	<u>579,081</u>	<u>(1,116,755)</u>	<u>223,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,911,375)</u>
Net change in fund balances	<u>4,515,672</u>	<u>(205,111)</u>	<u>428,606</u>	<u>10,548</u>	<u>92,308</u>	<u>82,165</u>	<u>(3,688)</u>	<u>-</u>	<u>50,000</u>	<u>1,797</u>	<u>4,972,297</u>
Fund balances at July 1, 2003	18,616,120	557,487	-	30,301	15,875	3,085,973	84	3,164	3,611	1,396,225	23,708,840
Fund balances at June 30, 2004	<u>\$23,131,792</u>	<u>\$352,376</u>	<u>\$ 428,606</u>	<u>\$ 40,849</u>	<u>\$108,183</u>	<u>\$3,168,138</u>	<u>\$ (3,604)</u>	<u>\$ 3,164</u>	<u>\$53,611</u>	<u>\$ 1,398,022</u>	<u>\$ 28,681,137</u>

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Agriculture</u>				
Animal and Plant Health Inspection Service - Surveillance and Management Relative to Chronic Wasting Disease	10.025	03-9715-1068-CA	\$ 44,600	\$ 12,008
Forest Service -				
Wildland Urban Interface Project (Kokee)	10.664	01-DG-11052000-130	46,500	-
Cooperative Forestry Assistance	10.664	01-DG-11052000-150	182,450	-
Forest Health Management	10.664	01-DG-11052000-151	50,000	16,471
Urban and Community Forestry	10.664	01-DG-11052000-158	350,000	-
Natural Resource Conservation Education	10.664	01-DG-11052000-174	15,000	-
Cooperative Fire Protection Program	10.664	01-DG-11052000-177	553,500	-
Conservation Education	10.664	02-DG-11052021-127	15,000	-
Urban and Community Forestry	10.664	02-DG-11052021-126	300,000	106,402
Forest Stewardship Program	10.664	02-DG-11052021-125	107,000	-
Forestry Incentives Program	10.664	02-DG-11052021-124	1,500	-
Cooperative Forest Health Protection	10.664	02-DG-11052021-123	60,000	27,479
Wildland Urban Interface	10.664	02-DG-11052012-119	115,500	23,901
Cooperative Forest Health Protection- Prevention and Suppression	10.664	02-DG-11052021-139	400,000	56,895
Cooperative Fire Protection Program	10.664	02-DG-11052012-149	500,000	150,000
Cooperative Forest Health Protection	10.664	03-DG-11052021-054	50,000	31,946
Wildland Urban Interface	10.664	03-DG-11052012-045	227,672	138,375
Urban and Community Forestry	10.664	03-DG-11052021-056	400,000	193,523
Cooperative Forestry Assistance- Forest Legacy	10.664	03-DG-11052021-069	5,000	4,900
Cooperative Forestry Assistance- Forest Stewardship Program	10.664	03-DG-11052021-070	102,000	101,900
Cooperative Forestry Assistance- Conservation Education	10.664	03-DG-11052021-072	15,000	5,271
Cooperative Forestry Assistance- Prevention and Suppression	10.664	03-DG-11052021-087	410,000	294,365
Cooperative Forestry Assistance- State Fire Assistance, Volunteer Fire Assistance	10.664	03-DG-11052012-106	500,000	300,000
Cooperative Forestry Assistance- Forest Land Enhancement Program	10.664	03-DG-11052021-119	100,000	4,227
			<u>4,506,122</u>	<u>1,455,655</u>
Hawaii Forestry and Communities Initiative	10.672	02-DG-11052021-162	250,000	68,545
Rural Development, Forestry and Communities- Utilization Marketing	10.672	03-DG-11052021-071	50,000	3,578
			<u>300,000</u>	<u>72,123</u>
Total U.S. Department of Agriculture			<u>4,850,722</u>	<u>1,539,786</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Commerce</u>				
National Oceanic and Atmospheric Administration -				
Direct Programs:				
Interjurisdictional Fisheries Act	11.407	NA96FI0132	\$ 105,791	\$ 29,552
Maintenance of Revised Commercial Fishing Effort & Catch Assessment Reporting System	11.407	NA-16F12731	54,435	6,133
Maintenance of Web-Based Internet Commercial Marine Licensing System for the State of Hawaii	11.407	NA03NMF4070142	54,550	35,403
			<u>214,776</u>	<u>71,088</u>
Coral Reef Management	11.419	NA-17OZ1600	268,000	145,757
Hawaii Coral Reef Management Program	11.419	NA-16OZ2441	360,000	126,186
Hawaii Coral Reef Management Program	11.419	NA03NOS4190210	347,200	29,663
			<u>975,200</u>	<u>301,606</u>
Hawaii Coral Reef Monitoring	11.426	NA-170A1535	179,760	54,198
Hawaii Coral Reef Monitoring Program	11.426	NA03NOS4260112	115,000	3,473
			<u>294,760</u>	<u>57,671</u>
Northwest Hawaiian Islands Coral Reef Ecosystem Reserve	11.429	MOA-2001-675	400,000	156,590
An Investigation of the Current Status of the Hawaiian Black Coral Fishery Using Historical and New Perspectives	11.430	NA040AR3000141	51,240	422
Hawaii Marine Recreational Fisheries Survey	11.437	NA-17FN1349	300,000	95,945
Pacific Fisheries Data Program	11.437	NA-17FN2307	121,000	50,547
Collect and Provide Fisheries Data Under the Western Pacific Fisheries Information Network	11.437	NA03NMF4370134	152,000	141,322
Hawaii Marine Recreational Fishing Survey	11.437	NA04NMF4370068	145,000	85,939
			<u>718,000</u>	<u>373,753</u>
Fisheries Disaster Relief Program	11.452	NA03NMF4520452	5,000,000	1,391
Marine Protected Areas	11.478	40-AA-NF-113067	98,000	26,269
Habitat Characteristics & Quality Assessment in Selected Sites	11.478	40-AA-NC-113187	80,000	15,000
			<u>178,000</u>	<u>41,269</u>
Subtotal Direct Programs			<u>7,831,976</u>	<u>1,003,790</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Commerce (Continued)</u>				
Pass-Through Programs From:				
The Department of Business, Economic Development and Tourism, State of Hawaii - Comprehensive Plan to Prevent the Introduction and Dispersal of Alien Aquatic Organism				
	11.419	DBEDT 49027	\$ 65,505	\$ -
Comprehensive Plan to Prevent the Introduction and Dispersal of Alien Aquatic Organisms				
	11.419	DBEDT 51678	55,205	6,320
			<u>120,710</u>	<u>6,320</u>
Subtotal Pass-Through Programs			<u>120,710</u>	<u>6,320</u>
Total U.S. Department of Commerce			<u>7,952,686</u>	<u>1,010,110</u>
<u>U.S. Department of Defense</u>				
U.S. Department of the Navy -				
Kaho'olawe Rehabilitation Trust	12.UNK	F-19-B-27	<u>26,379,100</u>	<u>3,068,631</u>
Total U.S. Department of Defense			<u>26,379,100</u>	<u>3,068,631</u>
<u>U.S. Department of the Interior</u>				
Fish and Wildlife Service -				
Kahului Boat Ramp (Widen Access Road Entrance)				
	15.605	F-19-B-27	270,000	-
Kikiaola Small Boat Harbor, Kauai- Replace Loading Dock & Repair Boat Ramp				
	15.605	F-19-B-28	262,500	-
Waianae SBH, Oahu Repair Loading Docks				
	15.605	F-19-B-29	150,000	-
Statewide Marine Fisheries Technical Guidance				
	15.605	F-16-T-26	60,000	-
Manele Small Boat Harbor, Lanai - Boat Ramp Repair				
	15.605	F-19-B-30	360,180	38,063
Statewide Freshwater Fisheries Development				
	15.605	F-11-D-27	411,000	100
Statewide Marine Fisheries Development				
	15.605	F-12-D-27	626,445	97,092
Sport Fish Restoration Coordination				
	15.605	F-13-C-27	33,750	-
Freshwater Fisheries Research & Surveys				
	15.605	F-14-R-27	294,000	49,979
Statewide Freshwater Fisheries Technical Guidance				
	15.605	F-15-T-27	24,300	222
Statewide Marine Fisheries Technical Guidance				
	15.605	F-16-T-27	60,000	319
Statewide Marine Research & Surveys				
	15.605	F-17-R-27	547,500	48,901
Aquatic Resources Education				
	15.605	F-18-AE-16	198,000	16,114
Access Road Improvements, Manele Small Boat Harbor, Lanai				
	15.605	F-19-B-31	195,000	-
Statewide Freshwater Fisheries Development				
	15.605	F-11-D-28	261,000	252,341

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Statewide Marine Fisheries Development	15.605	F-12-D-28	\$ 662,500	\$ 550,704
Coordination of Statewide Sports Fish Restoration Program	15.605	F-13-C-28	33,750	33,750
Freshwater Fisheries Research & Surveys	15.605	F-14-R-28	302,250	239,490
Statewide Freshwater Fisheries Technical Guidance	15.605	F-15-T-28	24,000	9,167
Statewide Marine Fisheries Technical Guidance	15.605	F-16-T-28	60,000	53,820
Statewide Marine Fisheries Research & Surveys	15.605	F-17-R-28	648,000	353,707
Aquatic Resources Education	15.605	F-18-AE-17	180,000	179,900
Construct Loading Dock "A" for Kahului Boat Launch Ramp Facility, Kahului, Maui	15.605	F-19-B-32	825,000	-
Replacement of Comfort Station at Heeia-Kea Small Boat Harbor	15.605	F-19-B-33	187,500	-
Design Phase for Maintenance Dredging and Revetment Repair at Waikaea Boat Ramp	15.605	F-19-B-34	45,000	-
Pohoiki Boat Ramp and Loading Dock	15.605	F-19-B-35	97,500	-
			<u>6,819,175</u>	<u>1,923,669</u>
Hawaii Game Management Program	15.611	W-22-NG-7	608,661	22,207
Conservation Education Facility, Waimea	15.611	FW-1-DE-1	857,000	37,969
Hawaii Hunter Education Program	15.611	W-21-HS-27	669,448	182,491
Hawaii Game Management Program	15.611	W-22-G-8	609,897	60,619
Hawaii Non-Game Management Program	15.611	W-23-NG-8	224,217	24,263
Hawaii Game Management Program	15.611	W-22-G-9	610,348	426,315
Hawaii Non-Game Management Program	15.611	W-23-NG-9	213,604	191,203
			<u>3,793,175</u>	<u>945,067</u>
Pouhala Marsh Protection & Restoration, Ph 2	15.614	C-2	260,000	101,905
Ilio Point Coastal Ecosystem Restoration, Ph 1	15.614	122001G007	10,000	180
Mokulua Seabird Sanctuary Soil Stabilization	15.614	122001G009	15,927	592
			<u>285,927</u>	<u>102,677</u>
Candidate Conservation Grants-Development of Candidate Conservation Agreements	15.615	E-4-CC-1	981,899	469,747
Recovery Land Acquisition Program Grants	15.615	E-6-RL-1	150,000	2,954
Habitat Conservation Plan Grants - Development of HCPs	15.615	E-5-HP-1	517,134	183,165
Safe Harbor Grants - Development of Safe Harbor Agreements	15.615	E-3-SH-1	1,147,186	457,688
Endangered Maui Forest Bird	15.615	122002J002	114,316	71,568
Statewide Endangered Plant Program	15.615	E-2-MP-3	492,962	59,416
Statewide Endangered Plant Program	15.615	E-2-MP-4	649,950	150,316
Statewide Endangered Wildlife Program	15.615	E-2-4	575,463	-

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of the Interior (Continued)</u>				
Statewide Endangered Wildlife Program	15.615	E-2-5	\$ 521,108	\$ 6,071
HCP Planning Assistance - Dev of an HCP for Game Mammal Mgmt in North Kona, HI Yr 2	15.615	E-5-HP-2	346,583	-
Recovery Land Acquisition Program - State of Hawaii: Waihe'e Coastal Dunes and Wetlands	15.615	E-7-RL-1	1,000,000	999,900
Statewide Endangered Wildlife Program	15.615	E-2-6	561,108	292,978
Statewide Endangered Plant Program	15.615	E-2-MP-5	598,033	423,061
Coordination and Planning of Programmatic HCP for E&T Seabirds on Kauai, Hawaii	15.615	E-8-HP-1	148,989	28
			<u>7,804,731</u>	<u>3,116,892</u>
Statewide Clean Vessel Program	15.616	F-V-1-1	<u>623,000</u>	<u>154,575</u>
Development of New Techniques in Predator Control	15.617	P-2-D-1	43,000	-
Kaena Point Seabird Habitat Restoration	15.617	P-3-MP	50,000	2,241
			<u>93,000</u>	<u>2,241</u>
Hawaii Wildlife Conservation & Restoration Program	15.625	R-1-CMRE-1	358,683	9,286
Hawaii Wildlife Conservation & Restoration Program	15.625	R-2-RE-1	125,250	16,970
			<u>483,933</u>	<u>26,256</u>
Kaena Point Coastal Ecosystem Restoration	15.630	122000G007	65,000	9,631
National Coastal Wetland Conservation: Waihe'e Coastal Dunes and Wetlands Acquisition	15.630	C-3-1	1,000,000	999,900
			<u>1,065,000</u>	<u>1,009,531</u>
Ulupalakua Ranch - Kanaio Fence & Habitat Restoration	15.631	122001G012	<u>50,000</u>	<u>-</u>
Landowner Incentive Program, Tier 1	15.633	I-1-1	180,000	26,246
Landowner Incentive Program, Tier 2	15.633	I-2-1	1,551,750	17,658
			<u>1,731,750</u>	<u>43,904</u>
State Wildlife Grant Program	15.634	T-1-P-1	236,060	108,858
Statewide Wildlife Grant Program	15.634	T-2-1-1	389,940	190,105
Native Dryland and Mesic Forest Protection and Restoration	15.634	U-2-M-1	501,270	26,321
State Wildlife Grant Program I. Planning and Coordination of Statewide Program of Terrestrial Wildlife Conservation	15.634	T-1-P-2	175,420	28,742

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>Federal Expenditures</u>
<u>U.S. Department of the Interior (Continued)</u>				
Preparation of GIS Shape Files of North Kona District, Hawaii	15.AAL	H8080030011	\$ 24,950	\$ 14,296
Management & Conservation of Nene Habitat	15.ABN	H8080010002	85,500	5,823
Bureau of Reclamation - State of Hawaii Drought Planning Assistance	15.BBD	03FC300002	50,000	33,807
State of Hawaii Conservation Planning Assistance	15.BCD	02FG300015	50,000	22,000
Living Reef Public Awareness Campaign	15.UNK	101603G001	10,650	-
Total U.S. Department of the Interior			28,835,060	8,364,370
<u>U.S. Department of Justice</u>				
Drug Enforcement Administration -				
Direct Programs:				
Domestic Cannabis Eradication/Suppression	16.UNK	LOA 2003-47	346,000	249,722
Domestic Cannabis Eradication/Suppression	16.UNK	LOA 2004-49	348,000	106,383
			694,000	356,105
Subtotal Direct Programs			694,000	356,105
Pass-Through Program From:				
The Department of the Attorney General, Crime Prevention and Justice Assistance Division, State of Hawaii -				
Statewide Marijuana Eradication Task Force	16.579	03-DB-10	150,000	16,554
Subtotal Pass-Through Programs			150,000	16,554
Total U.S. Department of Justice			844,000	372,659
<u>U.S. Department of Transportation</u>				
Federal Highway Administration -				
Direct Programs:				
Recreational Trails	20.219	NRT-NRT 1(006)	533,301	31,017
Recreational Trails	20.219	NRT-NRT 1(007)	533,643	533,543
			1,066,944	564,560
Subtotal Direct Programs			1,066,944	564,560

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Grant Number	Grant Award	Federal Expenditures
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
U.S. Coast Guard -				
National Recreational Boating Safety	20.005	13.01.15	\$ 725,748	\$ 146,606
Recreational Boating Safety Program	97.012	14.01.15	701,920	519,636
			<u>1,427,668</u>	<u>666,242</u>
Federal Insurance and Mitigation Administration -				
Community Assistance Program	83.105	EMF-2003-GR0339	92,602	39,897
Community Assistance Program	97.023	EMF-2004-GR-0413	60,380	53,575
			<u>152,982</u>	<u>93,472</u>
State Dam Safety Grant Program	83.550	EMW-2000-GR-0126	103,225	-
National Dam Safety Grant Program	97.041	EMW-2003-GR-0350	53,480	14,521
			<u>156,705</u>	<u>14,521</u>
Pre-Disaster Mitigation Project & Drought Hazard Analysis & Vulnerability Assessment	83.557	State CD PO#79292	75,000	53,490
			<u>384,687</u>	<u>161,483</u>
Transportation Security Administration - Port Security Grant Program	97.056	DTSA20-03-G-01060	1,450,000	-
Subtotal Direct Programs			<u>3,262,355</u>	<u>827,725</u>
Pass-Through Programs From:				
The Department of Defense, Office of the Director of Civil Defense, State of Hawaii - FY2003 State Homeland Security Grant Program Part II				
	97.004	State CD SHSGP II	300,000	-
Pre-Disaster Mitigation Project on County Drought Mitigation Plans	97.047		50,000	7,313
Subtotal Pass-Through Programs			<u>350,000</u>	<u>7,313</u>
Total U.S. Department of Homeland Security			<u>3,612,355</u>	<u>835,038</u>
Total Federal Grants			<u>\$ 74,617,632</u>	<u>\$ 15,909,716</u>

The above schedule is prepared on the cash basis. Under this basis, expenditures are recognized when paid.

PART IV

COMPLIANCE AND INTERNAL CONTROL SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Land and Natural Resources
State of Hawaii

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources, State of Hawaii (Department), as of and for the year ended June 30, 2004, which collectively comprise the Department's basic financial statements and have issued our report thereon dated January 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Department, in a separate letter dated January 19, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ohata Chum Joon LLP

Honolulu, Hawaii
January 19, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Land and Natural Resources
State of Hawaii

Compliance

We have audited the compliance of the Department of Land and Natural Resources, State of Hawaii (Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Department, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Chata Chen Gunn LLP". The signature is written in a cursive, flowing style.

Honolulu, Hawaii
January 19, 2005

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2004

Section I - Summary Of Auditors' Results

Financial Statements -

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Reportable condition(s) identified that are not
considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Reportable condition(s) identified that are not
considered to be material weakness(es)? _____ yes x none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133? _____ yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.615	Cooperative Endangered Species Conservation Fund
15.630	Coastal Program
20.005/97.012	Boating Safety Financial Assistance

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2004

Section I - Summary Of Auditors' Results (continued)

Dollar threshold used to distinguish between
type A and type B programs:

\$ 477,291

Auditee qualified as low-risk auditee?

 x yes no

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2004

Section II - Financial Statement Findings

None

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2004

Section III - Federal Award Findings And Questioned Costs

None

DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII
Schedule Of Prior Findings And Questioned Costs
For The Year Ended June 30, 2004

Finding

Status

None